

## PROGRAM FOR MUNICIPAL STRENGTHENING AND DEVELOPMENT

(NI-0156)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	Republic of Nicaragua	
<b>Executing agency:</b>	Instituto Nicaragüense de Fomento Municipal (INIFOM), with the participation of beneficiary <i>municipios</i> .	
<b>Amount and source:</b>	IDB (FSO foreign exchange):	US\$12,000,000
	Local Counterpart:	<u>US\$ 3,000,000</u>
	Total:	US\$15,000,000
<b>Financial terms and conditions:</b>	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	4 years
	Interest rate:	1% for the first 10 years, 2% thereafter
	Inspection and supervision:	1.0%
	Credit fee:	0.5%
<b>Objectives:</b>	The program's general objective is to strengthen the financial and institutional capacities of the municipal governments to enable them to cope with the growing challenges of urbanization and to improve local services and infrastructure.	
	The program's specific objectives are: (i) ensure institutional strengthening of the participating municipal governments to enhance their financial capacity and efficiency in the provision of services; (ii) promote more controlled and environmentally sustainable urban development; and (iii) strengthen INIFOM to enable it to expand technical assistance and training for the municipalities, develop municipal management instruments and methods, and strengthen its capacity to formulate and assess local development proposals.	

The program strategy is to provide incentives to the municipal governments of the secondary cities to adopt sound practices for municipal management. In each of the municipal governments, the program will finance an institutional modernization and reform plan that will include a set of agreed-upon targets for administration, finance, provision of services, environmental management and urban development planning. As the municipal governments reach these targets, they will gain access to the resources earmarked for priority investment projects. At the end of the program, it is expected that there will be a number of municipal governments capable of responding more adequately to the urbanization process and to the demands of citizens for services and infrastructure.

**Description:**

The program is aimed at 16 municipal governments of secondary cities facing the challenges of urbanization. To respond to the outlined objectives, the program has been divided into three components:

**Component 1. Municipal Strengthening and Development (US\$5 million).** This component will finance the preparation, implementation and monitoring of the Municipal Action Plans (MAPs) for participating municipios. The MAPs will identify, on a case-by-case basis, the institutional strengthening activities required by the municipio in the following areas: (i) municipal administration and finance; (ii) service management; (iii) increasing environmental and natural resource management capacity; and (iv) implementation of urban planning and development practices.

**Component 2. Municipal Investments (US\$7 million).** The funds earmarked for investment projects will be used as an incentive for achieving the targets contained in the MAPs with respect to the adoption of measures and sound practices for municipal management. The investment projects that may be financed under the program include: (i) urban transportation infrastructure; (ii) infrastructure for the disposal and treatment of solid waste; (iii) systems for storm drainage and catchment of rainwater in reservoirs; (iv) green areas, forest areas, or high-value environmental areas which serve to mitigate the municipio's vulnerability to natural disasters or help make better use of natural resources; and (v) protection against erosion and flooding. In the case of investments in markets, terminals, slaughterhouses, cemeteries, restoration of historical heritage, and the disposal and treatment of solid waste, the program will study the possibility of private sector involvement. The eligible projects in this program will complement those funded through the FISE, since FISE makes investments in rural and periurban areas with high poverty rates, while this new operation will finance investments in municipal services and infrastructure in secondary cities. Coordination of the investments funded by the FISE and INIFOM is based on the

Municipal Development and Investment Plans, which are the result of the Municipal Planning System developed jointly by INIFOM and the FISE.

**Component 3. Strengthening of INIFOM (US\$2.56 million).** This component will finance activities to support INIFOM so that it can take charge of coordinating, developing and supervising the coverage and quality of municipal training and technical assistance (T&TA) services. At the same time, it will finance the development of municipal management instruments and activities to enable INIFOM to expand its capacity to assess and prepare municipal development policy proposals. The technical assistance for INIFOM will help strengthen interagency ties between the FISE and other government agencies that work at the local level.

**Program's  
strategic  
framework:**

The program's proposed strategic framework is the Enhanced Strategy for Economic Growth and Poverty Reduction (ERCERP), which emphasizes the municipio's role in providing better services and infrastructure for the local population. The Bank's strategy is to support the efforts of the Government of Nicaragua to reduce poverty in the context of implementation of the ERCERP. The program is consistent with the ERCERP because it seeks to strengthen the capacity of municipal governments to ensure interagency cooperation at the local level, increase their capacity for project execution, encourage citizen participation and promote local development.

The operation is also consistent with the Bank's Subnational Development Strategy (SDS), highlighting the importance of assisting the central government to provide better training and technical assistance to the *municipios*; establish systems of municipal financial administration to increase transparency and governability; help strengthen the overall institutional capacities of the *municipios*; and lay the groundwork for sustained improvement of municipal finances.

**Environmental  
and social  
review:**

The program's strategy consists of supporting better planning for the best use of the land and the strengthening of environmental and natural resource management by the *municipios*, and incorporating environmental concerns into the municipal project cycle.

The program also establishes that, in order to make the investments, the municipality must attain a set of targets for institutional modernization, one of which is the adoption of the Environmental Management System developed by the FISE with the help of the Bank.

The program will have a positive social impact by introducing participatory municipal planning methods, leading to urban development programs to control unregulated settlements, and facilitate the planning and provision of local services and infrastructure. It will thus help improve the living conditions of the *municipio's* inhabitants in general, and in particular, those living in areas of urban expansion.

**Benefits:**

The participating municipal governments will benefit from the program, since it will provide them with technical assistance to expand their capacity to generate more income and modernize the management of municipal services. In addition, they will have greater technical and financial means to confront the challenges of urban growth and respond more efficiently to the demand for local services and infrastructure. Upon program completion, the *municipios* will have strengthened their institutional and financial capacity, and, thus, will be in a better position to promote local development and help deepen decentralization in Nicaragua.

With the strategies for municipal government modernization, this program will facilitate the introduction in Nicaragua of a model under which access to investment funds is subject to the adoption of reforms and sound practices in municipal management. The adoption of sound practices will be possible because the program will finance the implementation of a comprehensive method for training and technical assistance for municipal management, which has been successfully implemented in other *municipios*, such as San Pedro Sula, Honduras. The program is based on the approach that sustainable improvement of local institutional performance is only possible if the reforms and sound practices encompass all different areas of municipal management.

**Risks:**

At both the national and municipal levels, there is at the same time high turnover of personnel when the political administration changes. This is a risk to the program to the extent that the professionals and technicians trained in the next few years may be replaced by future administrations. The program seeks to mitigate this risk by increasing the technical value of the municipal employees, thereby making it more costly for the municipality to replace them. This increase in value will be possible with the professional training and technical assistance included in this program, and with the emphasis given to the adoption of municipal management systems that require skilled staff to operate them.

The risk to the program, caused by the possible replacement of INIFOM officials after the upcoming national elections, has been addressed in two ways: (i) the program has been developed in consultation with municipal authorities that will press for program continuity; and (ii) the board of directors of INIFOM will only have partial turnover because the municipal representative on the board, who fully understands the program's purpose, will remain the same.

The current weak coordination in the area of municipal training and technical assistance might be a risk if INIFOM does not coordinate the supply of technical assistance with the participating *municipios*. To reduce this risk, the following measures have been taken: (i) a logical framework workshop has been conducted in which the agencies that are funding projects with INIFOM have explained their programs and discussed ways to achieve greater coordination; (ii) funds have been included for the design of a national technical assistance and training program, which will serve to increase assistance to municipalities, regardless of the provider; and (iii) the program will be managed in the *municipios* by a modernization committee that will have, among its duties, that of coordinating all municipal institutional strengthening activities implemented, regardless of the source of financing.

**Special contractual clauses:**

Conditions precedent to the first disbursement will be: the agreement for the transfer of funds must be signed by the borrower and INIFOM (paragraph 3.1).

The Operating Regulations prepared as agreed upon by the Bank and approved by INIFOM must be submitted (paragraph 3.14).

A management and accounting contract system must be set up in INIFOM that will be adequate to manage the program's resources (paragraph 3.2).

**Social sector classification and poverty reduction:**

The proposed program will strengthen the capacity of the municipal governments to respond to the demands of citizens, but does not contemplate any activities or mechanisms focusing on investments to directly alleviate poverty. Based on the available information, the operation qualifies as a social equity enhancing project, as described in the Bank's key objectives, contained in the Report on the Eighth General Increase of Resources.

**Exceptions to Bank policy:**

None.

**Procurement:** The procurement of goods and services will be in accordance with Bank policies. International competitive bidding will be required for contracts in excess of US\$1 million for construction works; US\$250,000 for related goods and services and US\$200,000 for consulting services. Works, goods and consulting services not exceeding these amounts will be subject to the procurement procedures stipulated in Nicaraguan legislation, provided that they do not conflict with the Bank's procurement procedures.